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125
Years of Service

COMMUNE BONUM

FOR THE GOOD OF THE COMMUNITY

THE
Consumers' Gas
COMPANY

Incorporated March 23, 1848

INTERIM REPORT
MARCH 31, 1973

THE **Consumers' Gas** COMPANY

To the Shareholders:

On March 23rd The Consumers' Gas Company marked its 125th anniversary from the date of its incorporation under the laws of the Province of Canada—March 23, 1848. The aim of the Company over these many years has been to provide the best possible service to the community at competitive rates while also providing employment opportunities and a return to investors.

A review of the past indicates that the Company has successfully accomplished these aims during these 125 years by setting an enviable record of service to the public, by providing employment both directly and indirectly and by establishing an unbroken record of paying investors for the use of their money consistently since 1848. The challenge of the future is to continue with these accomplishments in an ever-changing world. Your Directors sincerely believe that this challenge can be met.

Basic earnings per common share before special items for the six months ended March 31, 1973 were \$1.08 per common share, an increase of 12% from the 96 cents earned during the same period a year earlier. For the twelve month period ended March 31, 1973 earnings amounted to \$1.40 per common share before special items as compared to \$1.31 a year earlier; a 7% gain.

After an unusually cold first quarter, the weather during the second three month period of the year was much warmer than usual. The weather was 3% and 1% warmer than the ten year average for the six month and the twelve month periods respectively.

Revenue from gas sales increased over comparable periods a year earlier by \$12,886,000 or 10% for the six months and by \$32,227,000 or 18% for the twelve months ended March 31, 1973. Expenses of operations have increased and this trend will continue as inflation pushes labour, material and gas costs higher. The gains which have accrued in the past as a result of economies of scale are now more difficult to achieve.

The recent Ontario budget increased the retail sales tax from 5% to 7% and doubled the tax on paid-up capital. These tax changes will cost your Company approximately \$125,000 in the current year and \$300,000 for a full fiscal year for retail sales tax and approximately \$100,000 in 1973 and \$260,000 for a full fiscal year for the tax on paid-up capital.

The rates charged for the sale of natural gas to our residential customers have not increased in the past eighteen years. This is because of the constant efforts on the part of the employees of the Company to keep expenses as low as possible while increasing the sales of gas to offset cost escalations. The price of competitive fuels has increased during this same period to the point where the residential gas customer is paying significantly less per heating unit than they would for other fuels. We believe, therefore, that any increases which may be necessary to the rates charged will not have an adverse effect on our growth in sales to residential customers.

At the request of the Company, the Ontario Energy Board called a public hearing to examine the rate base and rate of return being earned through gas rates presently in effect. The hearing commenced on April 16th and was adjourned until May 17th to allow interested parties additional time to study the voluminous information filed with the Board.

As yet there has been no decision from the National Energy Board regarding the TransCanada PipeLines Limited rate hearing pertaining to new rates to be charged to this Company and others for gas delivered in Eastern Canada. The payment of the 2.1 cents per Mcf, referred to in earlier reports, continues to be made on gas delivered for use in Ontario. Total payments which are deferred in our accounts in accordance with an Ontario Energy Board accounting order amounted to \$6,333,000 at March 31, 1973.

TransCanada PipeLines Limited, which supplies nearly all of the gas requirements of Consumers' Gas, is continuing its efforts to find a satisfactory solution to the problems caused by the desire of the Government of Alberta to increase the price of "previously contracted for" gas in the field beyond that believed to be justified on the basis of a reasonable return to the producer. In your management's opinion there are adequate gas reserves in Western

Canada to supply the demands of Canadian customers, but the Company is concerned that Eastern Canadian customers may be asked to pay an unreasonable price for this gas as a result of the critical shortages in the United States.

The Company's computer operations are now conducted through Consumers' Computing Limited which, as agent for Consumers' Gas, offers clients a complete range of talents and service in the data processing field. Just as Consumers' Gas had earlier built its reputation on satisfying its gas customers the computer operation places emphasis on satisfying customers in their entire data processing requirements—not just on supplying computer time.

T-Scan Limited has concluded an agreement for the supply of computer terminals which is expected to involve sales for the Company in excess of $2 million over a two year period. Initial orders in excess of $100,000 were placed immediately.

The progress recorded by Home Oil Company Limited continues to be encouraging. Gross revenue, earnings and cash flow of Home Oil for the first quarter of 1973 reached all-time highs due to increased oil production and higher product prices. First quarter results compared with the same period last year show gross revenue at $11.7 million, up 25%, cash flow $6.0 million, up 36% and earnings of $2.9 million or 38 cents per share—83% higher. Home Oil has planned a very active exploration programme for the current year with budgeted expenditures of $18 million.

On April 30, 1973 The Consumers' Gas Company purchased a new 6% cumulative redeemable preferred share issue of Cygnus Corporation Limited in the amount of $4.5 million. Cygnus Corporation, which is now 93.8% owned by your Company used these funds to retire a U.S. dollar bank loan which currently had an interest rate of 7¾%.

J. C. McCARTHY
President

OAKAH L JONES
Chairman of the Board

19 Toronto St., Toronto

May 22, 1973

THE Consumers' Gas COMPANY
and subsidiary companies

CONSOLIDATED INTERIM STATEMENT OF SOURCE AND USE OF FUNDS

(Unaudited)

	6 Months Ended March 31 1973	1972
	(Expressed in Thousands)	
SOURCE OF FUNDS		
Cash flow from operations .	$ 30,579	$ 24,557
Issue of funded debt . . .	74,728	32,000
Increase in mortgages payable, net.	118	426
Issue of common shares. .	14	161
	105,439	57,144
USE OF FUNDS		
Net additions to property, plant and equipment . .	26,291	25,209
Investment in shares of Cygnus Corporation Limited	15,104	—
Investment in shares of other subsidiary companies	—	240
Investment in shares of Home Oil Company Limited	—	9,123
Investment in other companies	310	60
Investment in mortgages receivable and other assets, net	1,656	(165)
Deferral of 2.1¢ per Mcf increase in the cost of gas paid to TransCanada PipeLines Limited . . .	2,774	1,277
Investment in Gas Arctic – Northwest Project Study Group	1,190	—
Reduction in non-current portion of long term debt excluding mortgages payable	3,836	3,843
Preference shares purchased for cancellation	108	61
Funded debt issue costs. .	1,298	538
Dividends on preference and common shares . .	8,144	8,155
Miscellaneous items . . .	251	(378)
	60,962	47,963
INCREASE IN WORKING CAPITAL POSITION	$ 44,477	$ 9,181

THE

Consumers' Gas COMPANY

and subsidiary companies

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Consolidated Interim Statement of Income

(Unaudited) (Notes 1 and 2)

	6 Months Ended March 31		12 Months Ended March 31	
	1973	1972	1973	1972
	(Expressed in Thousands)			
REVENUE				
Gas sales	$135,471	$122,585	$210,299	$178,072
Other	8,414	6,995	16,455	13,950
	143,885	129,580	226,754	192,022
COSTS AND EXPENSES				
Gas costs	77,311	71,090	121,817	101,449
Operation and maintenance	16,728	15,284	32,957	29,313
Depreciation and depletion	6,862	6,180	13,731	11,883
Municipal and other taxes	2,160	2,297	4,129	4,101
Interest and amortization – long term debt	11,263	7,504	19,637	14,649
Other interest	957	1,531	2,291	2,295
	115,281	103,886	194,562	163,690
	28,604	25,694	32,192	28,332
Equity in earnings after minority interest				
Home Oil Company Limited	1,070	460	1,433	569
Tecumseh Gas Storage Limited and other companies	449	378	947	828
Income before income taxes and special items	30,123	26,532	34,572	29,729
Income taxes				
Current	8,317	7,680	5,005	2,814
Deferred	2,453	1,668	4,179	3,150
	10,770	9,348	9,184	5,964
Income before special items	19,353	17,184	25,388	23,765
Special items				
Gain on sale of surplus land	2,207		2,207	
Company's share of provision in Home Oil Company Limited for write down of investment in Lockton Gas Plant	(586)		(586)	
Net income for the period	$ 20,974	$ 17,184	$ 27,009	$ 23,765
Basic earnings per common share (Note 3)				
Income before special items	$ 1.08	$ .96	$ 1.40	$ 1.31
Net income	$ 1.17	$ .96	$ 1.49	$ 1.31

NOTE 1: Due to the weather sensitive nature of much of the Company's business the information provided above for the six months of each year should not be taken as directly indicative of the results for the full fiscal year.

NOTE 2: Comparative figures for the Company's equity in the earnings of Home Oil Company Limited have been restated to reflect the retroactive change adopted by Home Oil Company Limited in its method of charging foreign exploration expenditures against income. The comparative figures have been reduced by $28,000 for the six months ended March 31, 1972, by $170,000 for the 12 months ended March 31, 1973 and by $35,000 for the twelve months ended March 31, 1972.

NOTE 3: Basic earnings per common share are calculated on the weighted average number of common shares outstanding in the periods. Fully diluted earnings per share (assuming conversion of the convertible debentures and exercise of stock options with proceeds used to earn 4.5% after tax) are:

	1973	1972
Six months ended March 31		
Income before special items	$ .98	$ .87
Net income	$1.06	$ .87
Twelve months ended March 31		
Income before special items	$1.30	$1.22
Net income	$1.38	$1.22